



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Abbasi and Company (Pvt.) Limited | BFR

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##### Rating History

| Dissemination Date | Rating | Outlook | Action   | Rating Watch |
|--------------------|--------|---------|----------|--------------|
| 21-Jun-2024        | BFR 2  | Stable  | Maintain | -            |
| 23-Jun-2023        | BFR 2  | Stable  | Maintain | -            |
| 24-Jun-2022        | BFR 2  | Stable  | Maintain | -            |
| 25-Jun-2021        | BFR 2  | Stable  | Initial  | -            |

#### Rating Rationale

| Factor   | Comment   |
|--|---|
| <b>Ownership</b>                                   | Controlling stakes are owned by Mr. Syed Muhammad Ismail Abbasi (~69.7%) whereas the rest of the ownership resides with family members. The business acumen of the sponsoring family is considered strong.  |
| <b>Governance</b>                                  | ACPL has three directors on the board. All three directors are from the sponsoring family. The governance framework may be improved through the induction of independent directors.   |
| <b>Management and Client Services</b>              | The Company has a well-developed organizational structure and an experienced management team. Client services are adequate with research reports present. The Company has recently revamped its website and mobile application by the name of 'Trade in', improving client services further.  |
| <b>Internal Controls and Regulatory Compliance</b> | The internal control framework is strengthened through an outsourced internal audit function. Separate risk and compliance departments are also present to ensure effective risk management and adherence to regulatory compliances.  |
| <b>Business Sustainability</b>                     | Equity brokerage is the primary source of revenue, whereas commodity brokerage and MTS are also available for limited diversification. During 9MFY24, ACPL earned ~PKR 50mln (SPLY: ~PKR 26mln) as operating revenue; however, due to high administrative and operating expenses, the bottom-line stood at ~PKR 0.4mln for the period (SPLY: loss of ~PKR 30mln). |
| <b>Financial Sustainability</b>                    | The Company has a zero-leveraged capital structure. Proprietary trading exposes ACPL to market risk; however, the prop-book is effectively managed through an investment policy. ACPL's equity stood at ~PKR 353mln at end-Mar'24.  |

#### Key Rating Drivers

Abbasi and Company (Pvt.) Limited ("ACPL" or the "Company") is one of the pioneers of the brokerage industry in the northern region. Since Oct'23, the PSX has surged with investor interest, resulting in the KSE-100 index reaching historic high levels amid high volumes. In-line with the market, ACPL's revenue also increased by ~92% during 9MFY24. Moving forward, diversification in revenue streams, customer base, and geographic reach is vital. Moreover, upholding of internal controls and growth in profitability remain important.

##### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Abbasi and Company (Pvt.) Limited   BFR                |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Broker Fiduciary Rating (BFR)                          |
| <b>Applicable Criteria</b>   | Assessment Framework   Broker Fiduciary Rating(Jan-24) |
| <b>Related Research</b>      | Sector Study   Brokerage & Securities(Jan-24)          |

## Profile

**Background** Abbasi and Company (Pvt.) Limited, “ACPL or The Company” was incorporated in 1999 as a private limited company. ACPL is a TRE certificate holder of the Pakistan Stock Exchange and a Member of Pakistan Mercantile Exchange Limited. ACPL is also registered as a research entity.

**Operations** The Company mainly provides the services of equity and commodity brokerage and research to highnetworth clientele.

## Ownership

**Ownership Structure** ACPL is primarily owned by individuals and it is not part of any foreign or local group. The majority of shares are owned by Mr. Syed Muhammad Ismail Abbasi who owns 69.7% of the ownership. The second highest ownership belongs to Ms. Yasmeen Ismail who owns 12.9% of the total shares.

**Stability** The Company's sponsors have a long-standing reput e in the market while their sizeable net worth is a positive factor for the ratings

**Business Acumen** The CEO, Mr. Syed Muhammad Ismail Abbasi possesses diversified experience in capital markets. He is serving on the Board of Directors of ACPL as a Chief Executive since its incorporation. He is also serving as chairperson of the Board. He holds a Master's Degree with distinction in Commerce from The University of Punjab and with over 35 years of experience in Pakistan's financial markets.

**Financial Strength** The sponsors have sizeable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case of a financial need arises.

## Governance

**Board Structure** ACPL has appointed three directors on board according all of whom are executive. The presence of Independent and Non-Executive directors would be an encouraging factor.

**Members' Profile** The board possesses the necessary skills and experience required for capital markets. The board members, on average, possess more than ~20 years of experience in the field of finance and capital markets.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee and Executive Risk Management Committee. The Audit Committee conducts meetings at minimum of once every quarter and the internal auditor reports are presented along with the findings.

**Financial** The external auditors of the Company are M/s Parker Randall – A.J.S and Company Chartered Accountants which are classified under the ‘B’ category of the State Bank of Pakistan panel of Auditors.

## Management And Client Services

**Organizational Structure** The Company has well developed organizational structure. The Company operates through ten departments namely i) Operations ii) Equity iii) Transaction iv) Accounts & Finance v) Research vi) IT vii) Business Support and Service viii) Human Resource ix) Compliance and x) Business Development. All of the departmental heads directly report to the CEO. However, Head of Internal Audit reports to the Board Audit Committee.

**Management Team** The management of ACPL is well qualified and experienced to manage the Company's operations efficiently. The CFO Mr. Qamar Tariq is an IFMP member and a Certified Anti Money Laundering Professional. He is overseeing financial operations for more than 10 years.

**Client Servicing** The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate them for execution and monitoring of their transactions. Furthermore, to further facilitate the customers a dedicated research department, trading facility, and a separate customer service department is also present.

**Complaint Management** A complaint box has been placed in the office premise while complaints can also reach the Company through call, email, website and by post. A designated officer has been assigned the responsibility of handling and rectification of complains.

**Extent Of Automation / Integration** Two database platforms are installed with full integration between back and front office. The system incorporates primary and secondary level protection. ACPL is in usual practice of daily and weekly backups.

**Continuity Of Operations** ACPL has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The Company has assessed the possibility of potential disaster or emergency and has defined a range of parameters to cater these risks.

## Internal Controls And Regulatory Compliance

**Risk Management Framework** ACPL has placed a separate resource specifically for risk management. Moreover, to ensure independent insight an independent Internal Auditor has been made part of the Risk Management Committee, thereby removing any conflict of interest and ensuring independence

**Regulatory Compliance** Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated.

## Business Sustainability

**Operating Environment** Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 75k mark for the first-time during May'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cut at the start of FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 shall have good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

**Performance** The Company's operating revenue is mainly concentrated on equity brokerage. During, the 9MFY24 company reported operating revenue of ~PKR 50mln, inclined by 104% when compared with 9MFY23 at 22mln. Additionally, company reported operating revenue of 33mln in 1H FY23 as compare to 17mln SPLY. The top line was impacted on account of uplift of market activity. The Company reported a net profit of ~PKR 0.4mln as compared to a loss of ~PKR 29mln in 9MFY23. The stats for 1H FY23 for net profit were 6mln as compare to net loss of 21mln. The profit incurred due to the incline in the operating revenue which is in line with the market trend.

**Strategy** The Company mainly provides the services of equity brokerage while also strengthening its presence in the commodity brokerage segment. The management is further considering to enhance its outreach in the retail segment for which it has recently revamped its mobile trading app with a user-friendly interface. ACPL also has a long-term plan to initiate a corporate finance and investment advisory department.

## Financial Sustainability

**Credit Risk** Company has also put in place different risk mitigation measures to determine the scope of the identification and verification requirements and ongoing monitoring based on the risks posed by particular customers by setting transaction limits for higher-risk Customers.

**Market Risk** ACPL has maintained a proprietary portfolio but the quantum of short-term investment is minimal; ~10% of the equity at end-Mar'24 and ~7.5% at end Dec'23. The Company has formalized a proprietary trading policy whereby limits have been defined to mitigate the risks, the compliance department will monitor the limits consistently and any breaches will be reported to the senior management.

**Liquidity Risk** At end-Mar'24 the current assets of the Company stood at ~PKR 320mln against the current liabilities of ~PKR 190mln. However, at end Dec'23, Current assets were 297mln as compare to 212mln at end Jun'23. The Company has an adequate liquidity profile.

**Capitalization** The Company has an adequate capitalization level with Liquid Capital Balance (LCB) standing at ~PKR 69mln at end-Mar'24. The Company's equity stood at ~PKR 353mln at end Mar'24 as compare to 356mln at end Jun'23. The equity has declined by ~0.8% which could be attributable to the decline in fair value reserves during the period.